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CIA in shadow of firm's collapse

By Douglas Frantz
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HONOLULU—Shortly after 6 p.m. on July 29, 1983, Ronald Rewald walked into the bathroom of his room at the Sheraton-Waikiki Hotel, swallowed 12 pain pills, slit his wrists with a razor blade and began to read the Bible.

Semiconscious and covered with blood, Rewald was found the next day by a hotel employee in time for doctors to save his life. But his flamboyant lifestyle on this sunny island paradise was over and, in its place, a dark tale of scandal and espionage was about to unfold.

It has been 14½ months since that July night when, Rewald says, he tried to take his own life after viewing a television newscast about irregularities at his investment firm, which was placed in involuntary bankruptcy three days later.

During those months, federal investigators pieced together what they describe as a classic swindle that bilked 400 investors, including many from the Midwest, of \$22 million.

THEY SAY REWALD used cash from new investors to pay off old ones and spent the rest on such extravagances as a fleet of 12 cars, a polo club and a string of ponies, two ranches and a villa with its own lagoon. The boyish, 42-year-old Rewald awaits trial on 100 federal charges of fraud, perjury and tax evasion.

Even more intriguing is evidence that Rewald was involved deeply with the CIA during his spectacular rise in business and social circles here.

Evidence indicates that Rewald's businesses were used as a cover for CIA agents, that he was involved in international arms deals and that the agency recruited Rewald's son to spy on Chinese students in Honolulu, a possible violation of the CIA charter.

The first whiff of CIA links came Sept. 14, 1983, when a federal judge here sealed bankruptcy court files at the request of a CIA lawyer, Robert Laprade, who said "national-security information may be subject to unauthorized disclosure" by their release.

SINCE THEN the CIA has acknowledged only a "slight involvement" with Rewald, admitting paying \$3,000 for a telephone and telex in his downtown offices and for printing business cards, presumably part of the cover

operation for agents.

Yet numerous court documents and interviews, many of which involved promises of anonymity, detail stronger links between the CIA and Rewald that began seven years ago.

Three successive CIA station chiefs met frequently with Rewald, and one later went on his payroll as a \$48,000-a-year consultant, according to records and former employees of Rewald.

Top military brass and CIA officials invested in Rewald's business and socialized with him, once inviting him to meet with Vice President George Bush at Hickam Air Force Base in Honolulu.

WHEN REWALD'S empire collapsed, two of his consultants were negotiating the sale of military hardware to Taiwan, including tanks and laser-sighting devices for M-16 rifles, documents show. The sale would have circumvented a U.S. agreement with mainland China not to supply certain weapons to Taiwan.

The CIA has admitted to congressional investigators that in 1982 the agency recruited Rewald's son, James, a college student in Honolulu at the time, to spy on exchange students from China. The domestic spying may have been illegal, but the agency has said it was merely targeting students for potential recruitment when they returned to China, a government source said.

There is also evidence that the CIA delayed at least one Internal Revenue Service investigation of Rewald's business in 1982, prolonging the fraud but warning its agents to withdraw their investments.

Certain events also point to a deeper CIA involvement.

WHEN REWALD'S bodyguards took critical files out of his office in the hours after the lid blew off, the CIA and FBI rushed in to help Honolulu police retrieve the documents, according to an internal police report.

A former CIA attorney with a military-intelligence background showed up in Honolulu as an assistant U.S. attorney in early August, 1983, and took over the case. The prosecutor, John Peyton, said his appearance was a coincidence.

Perhaps strangest of all, a California man has claimed in a sworn statement that the CIA hired him to kill Rewald while the businessman was in prison in lieu of \$10 million bail, a charge the CIA denied as "totally false." California law enforcement authorities say the man, Scott T. Barnes, is a former policeman who is "completely unreliable."

Barnes' claims, which were aired by ABC News last month, are only some of the oddities that make Rewald's story more bizarre than the usual swindle.

THOMAS HAYES, the court-appointed administrator of Rewald's bankrupt firms, said the CIA used Rewald's businesses as a broader cover operation than the agency has acknowledged.

"There's more CIA involvement here than they'd like you to believe," Hayes said in an interview. "The CIA has egg all over its face."

But Hayes said Rewald has exaggerated his CIA ties to protect himself from the fallout of a scheme that Hayes said had nothing to do with the CIA.

Testimony last year in the bankruptcy case indicated that Rewald had lured investors with promises of big returns but didn't invest their money. Instead he allegedly used cash from new deposits to pay interest on old ones and spent the rest of the money on himself, leaving no money when authorities closed the operation on Aug. 3, 1983.

Rewald has said that he mixed investor funds with CIA money and that the agency looted his company's accounts when the operation began to go under that day in July.

ANGRY INVESTORS, some of whom lost their life savings, have echoed Rewald's claims in lawsuits. They contend that the CIA is responsible for their losses because the agency helped finance and operate Rewald's investment firm to conduct intelligence operations.

"The CIA station in Honolulu assumed the guise of Rewald's investment company, and this is how various Hawaiians were inveigled into investing in it," said Melvin Belli, a San Francisco attorney who represents many investors in a suit against the government. "The CIA has lied about their involvement with Rewald."

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A House subcommittee has opened an investigation into the affair, and a federal grand jury in Honolulu is continuing its probe of the collapse of Rewald's empire.

REWALD'S RISE to prominence here began in late 1977 when he arrived from Wisconsin, where his fortunes had taken a decided downturn.

At Milwaukee's South High School in the late 1950s, Rewald was a football star, and he played on three National Football League taxi squads after junior college. But his extracurricular activities in college were more unusual.

In court papers, Rewald said he spied on students in Wisconsin for the CIA, trying to learn whether the Soviets were financing antiwar organizations.

After leaving college and football, he tried to parlay his sports background into a livelihood by franchising sporting goods stores. But the firm went bankrupt in 1976, and he pleaded guilty to misdemeanor theft charges in Wausau, Wis., for persuading two high school teachers to invest in one of the stores under false pretenses.

These blemishes were generally unknown in Hawaii when Rewald began to set up several companies, including the investment firm Bishop, Baldwin, Rewald, Dillingham & Wong.

SUNLIN WONG was a local real estate man who became Rewald's partner and recently was sentenced to two years in prison after pleading guilty to fraud charges in the firm's collapse. But the names Bishop, Baldwin and Dillingham were taken from prominent old-line Hawaiian families, which had no connection with the firm.

In his \$571 million damage suit against the government, Rewald said the CIA ordered him to set up the investment firm and provided him with "several million dollars" in seed money. He said the agency used the company to shelter money for "highly placed foreigners" and finance covert operations.

Rewald claimed the CIA knew its funds were mingled with those of the private investors who had begun to flock to Bishop, Baldwin because of its promise of high returns.

Bishop, Baldwin flourished because it guaranteed 20 percent interest and promised a 7 percent annual bonus. Brochures said investments of as much as \$150,000 were backed by the Federal Deposit Insurance Corp., a claim the FDIC later said in court papers was untrue.

AS THE MONEY flowed in, Rewald's lifestyle became more extravagant. He said he developed the

higher profile on orders from the CIA to attract wealthy international businessmen who could provide intelligence information.

Rewald bought the Hawaii Polo Club and a string of polo ponies. He owned 12 cars, including a Rolls-Royce, a Jaguar and three Cadillacs, and a home on a private lagoon near the ocean.

He threw lavish parties at the polo club, where guests included Prince Charles, the sultan of Brunei and international financier Enrique Zobel. Though married, with five children, Rewald surrounded himself with gorgeous women.

He also surrounded himself with top military officers and CIA officials. Among his frequent social companions and investors were Gen. Arnold Braswell, who retired last year as chief of the Air Force's Pacific Command; Jack Rardin, CIA station chief until last year; and Jack Kindschi, who was Rardin's predecessor until he quit to become a full-time consultant at Bishop, Baldwin.

REWALD FLAUNTED these friendships to lend credence to his operation, according to several investors.

One of those investors was Mary Lou McKenna, a former Chicago model, who moved to Hawaii to recuperate from severe injuries suffered in a car accident. She met a secretary from Bishop, Baldwin beside the pool at her apartment in 1982, and they became friends.

The secretary learned that McKenna had \$75,000 from the accident settlement to pay for her medical therapy and introduced her to Rewald.

"He was a very charming man, and when he sent limousines to take you to parties at the polo club with all these military people and CIA guys, he seemed like an upstanding citizen," McKenna said.

She invested the full \$75,000 with Rewald and said she was persuaded

by an attorney on Rewald's staff to sell land she owned in California and invest the proceeds. An additional \$75,000 from the land sale was turned over to Bishop, Baldwin two weeks before the bankruptcy.

"THEY KNEW IT was every penny I had and they took it," said McKenna, 47, who suffers from chronic pain because she had to discontinue therapy when she lost her money and can't work because of her injuries.

Carole Myers, a former Lake Forest resident, was among those who invested with Rewald after hearing about his government connections from friends.

"When I heard that he was involved with the CIA, I rushed to put in my money," said Myers, who lost more than \$100,000. "I thought, what better protection than the government?"

Myers is also one of a handful of people who remain loyal to Rewald, directing their anger instead at the CIA and backing his story that the investors' money was transferred to secret CIA accounts at the first sign of trouble.

The first outward sign of trouble was the local television report on July 29, 1983, which said state regulators were investigating Bishop, Baldwin and revealed Rewald's Wisconsin conviction and bankruptcy.

Rewald said through friends that he was tipped about the news report a few hours before it aired. Using an assumed name, he checked into the Sheraton-Waikiki on Honolulu's famed beach and watched the broadcast. He said he was "shamed and humiliated" and sought to spare his family by committing suicide.